

## **THIRD QUARTER RESULTS, FISCAL YEAR 2008**

### **FINANCIAL ANALYSTS CALL – FEBRUARY 26, 2008**

#### **INTRODUCTIONS:**

Good afternoon, ladies and gentlemen! Welcome to our presentation of the Third Quarter results of Fiscal Year 2008.

I am here today with Berty Ho, our Chief Financial Officer.

#### **Agenda:**

In our presentation, we will announce the results for the Third quarter of fiscal year 2008; we will also cover some of the key business highlights during the quarter. Towards the end of the call, we will open it up for questions.

Please note that all dollar amounts are expressed in U.S. currency and are reported in accordance with Canadian GAAP and are unaudited.

Some of the statements in this conference call relate to matters that are not historical fact, but which are forward looking statements that are based on management's beliefs and assumptions. Such statements are not guarantees of future performance and are subject to a number of uncertainties, including but not limited to future economic conditions, and other factors beyond the control of TECSYS Inc., which could cause actual results to differ materially from such statements.

## **Overview:**

With an annualized run rate of over \$40 million in revenue, TECSYS is back in a high growth mode, with profitability! Q3 was another great quarter, with significant revenue growth in both product and services. Margins were up, and we have reached a new level of profitability, reassuring us that our strategic plan is working. I am pleased with these results!

### **Allow me to go through the financial highlights of the quarter:**

Revenue for Q3 for fiscal year 2008 was \$10.7 million, 36% higher than the third quarter of last fiscal year. For the second quarter in a row, product revenue improved substantially, soaring to \$5.1 million during the quarter, a 52% increase over last year, while Services revenue grew by 23% reaching \$5.4 million in the same period.

Gross margin increased to 44% in Q3 of fiscal year 2008, compared to 40% in Q3 of last fiscal year. This gross margin improvement reflects an increase in gross margin of both products and services in Q3 of this fiscal year compared to Q3 of last fiscal year, in spite of the massive adjustment in the value of the CDN dollar.

Earnings from operations for the quarter were \$824K compared to \$256K for Q3 of last fiscal year. From an EBITDA perspective, we have achieved a healthy 61% increase, or \$1,093K in Q3 of this fiscal year compared to \$679K for Q3 of last fiscal year. We generated \$572K in cash from operations during the quarter.

Net earnings for the third quarter of fiscal 2008 were \$707K or \$0.05 per share compared to \$436K or \$0.03 per share for the third quarter of last fiscal year. These net earnings were achieved after accounting for a foreign exchange loss of \$8K, net interest expenses of \$9K, a share of net loss of \$32K from a company in which TECSYS has an equity interest, and a \$68K ABCP provision. TECSYS reassesses the value of its Asset Backed Commercial Paper holdings each quarter as additional information is made available, using a combination of credit risk, liquidity risk, interest rates and term to calculate present value.

For the nine months ended January 31, 2008, revenue increased by 21% to \$28.3M compared to \$23.3M for the same period of the prior fiscal year. Earnings from operations for the first nine months of fiscal year 2008 were \$1,958K compared to loss from operations of \$644K for the same period of the prior fiscal year. EBITDA for the first nine months increased substantially to \$2,142K compared to \$320K for the same period in fiscal year 2007. Net earnings for the first nine months of fiscal year 2008 were \$1,216K or \$0.09 per share compared to net loss of \$429K or \$0.03 per share for the same period of the prior fiscal year. These net earnings were achieved after accounting for an exchange loss of \$463K, net interest income of \$88K, a share of net loss of \$36K from a company in which TECSYS has an equity interest, and a provision for ABCP holdings of \$331K. During the first nine months of the fiscal year, we generated \$1,974K in cash from operations.

### **Now turning to some of our business highlights:**

During the quarter we have signed sixteen agreements with new and existing customers, and completed nine go-lives, the new customers include:

- A major consumer electronics manufacturer/distributor in New York
- A major healthcare services organization in Oregon
- An industrial distributor in California

Allow me to comment on the new customers and our key market areas:

Towards the end of the quarter, we signed a major North American manufacturer/distributor of consumer electronics products. The Company is a leader in its field and has substantial varied needs for distribution management - from totally automated systems with conveyors, carousels and state of the art RFID technology, to lower volume logistics operations with a lesser need for automation. In essence they needed not only a feature rich warehouse management system but also a very flexible one. We competed against top players in the industry for this account. We were selected because of our expertise, our flexible technology and our ability to provide them visibility across their supply chain. I am delighted with this win, it is not only significant competitively, but this customer plans to standardise on our

software across their distribution centres in North America, including displacement of already installed competitive product of other major WMS vendors.

Also in Q3, we signed a major Health & Services organization in Oregon. This not-for-profit network of hospitals, health plans, physicians, clinics, home health services, and affiliated health services organization, is another IDN (Integrated Delivery Network) win for TECSYS; they have acquired our Warehouse management system to enable them to move away from their labour intensive and inefficient healthcare products distribution operation.

As part of our achievements during the quarter, North Mississippi Health Services, a diversified regional health care organization went live on our warehouse management system to support its critical mission of providing conveniently accessible, cost-effective health care of the highest quality in the region.

NMHS' service area covers two states; it includes six hospitals, 32 owned clinics, four nursing homes, a home health agency and 23 school health centers. In 2006, NMHS admitted close to 39,000 patients and over 110,000 cases in ER. Coordinating care over such a wide area and in so many settings is one of the system's key challenges. TECSYS' WMS was deployed to manage its critical needs of delivery of such materials as IV fluids, clinical supplies and implants, but also to keep costs in line, such as reducing duplication and inefficiencies and encouraging standardized processes.

On the business development front, in addition to our focused effort directly targeting the Healthcare industry and in particular hospital supply chain networks, recently we have entered into a partnership with Lawson Software, a global provider of enterprise software solutions to some 4,000 customers in manufacturing, distribution, maintenance and service sector industries across 40 countries.

Our partnership with Lawson is intended to extend our reach in the hospital supply chain network arena. We will be able to offer Lawson's customer our best-of-breed Warehouse Management System to manage their distribution centers and warehouses for large Integrated Delivery Networks.

The IDN market place of more than 200 groups of healthcare entities in North America is Core to our go-to-market strategy. I look forward to our business development initiatives as we continue to deliver solutions that are transforming the landscape of how healthcare services and products are being delivered to the patients across North America.

In the fall of 2006, we added a new segment to our target market, the Industrial gas and welding equipment and supplies industry. Prior to targeting this segment, the majority of the industry was captive to an old legacy system, developed in the 1970's. The system, in addition to being old, has no relational database management; it is very weak in distribution functionality and has no real-time access to business intelligence. We saw the opportunity and we went after it. Since launching this initiative we have won 5 customers in this space and the latest is a new customer in California we signed in the third quarter.

Our pipeline is healthy with many of these types of opportunities. We have recently deployed our first go-live in this space with Cee Kay Supply in Missouri. Cee Kay has grown over the years to become the largest supplier in the State of Missouri serving customers within a 100 mile radius of the St. Louis metropolitan area. The Company provides Welding Equipment & Supplies, rental & repairs, and state of the art technology for cylinder tracking and satellite technology for monitoring of bulk gas and Express systems.

With our distribution management solutions, delivered via a web-browser, Cee Kay Supply now has real-world, real-time control over their distribution operations with minimal IT involvement. They are now assured of the quality and accuracy of data collected in the field, they also have confidence that their rental balances are correct and can gain real-time visibility to the information needed to make better business decisions.

This deployment represents to this industry a clear testimony of the value and advantages we can provide them to improve their supply chain operations and the tool they can possess to better serve their customers.

In January of this year, we met with a substantial number of our heavy equipment clients and prospects. 60% of the attendees were prospects. We had the opportunity to meet face to face

with decision makers and present them with our proven value propositions that their peers have been buying for years. We continue to see great opportunity in this market and I look forward to increasing our market share in this space.

In summary, Q3 was another great quarter. Our performance demonstrated by our KPIs is a clear testimony that we have moved and are going in the right direction:

- Revenue and margins are up
- Expenses are within our expectations
- Operating and net earnings are positive and improving
- DSO for Q3 was at 75 days, down from 77 days in Q2 of this year
- Backlog at the end of Q3, 2008 reached \$20.7 million up 16% from Q2 of \$17.8 million.
- We have generated an annualized return on equity of 11%.
- Our sales pipeline continues to grow, and
- We continued to generate cash.

**That concludes our presentation. Thank you for your attention, we will now open it up for questions.**